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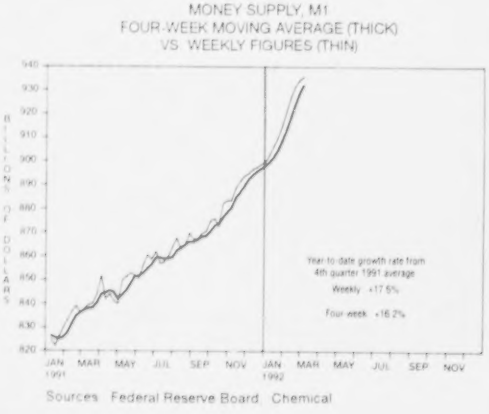
Analysis of Business Trends Plus Selected Financial Indicators

Gathering Momentum

Despite the persistence of such obstacles to robust economic growth as high levels of private and public debt, acres of vacant commercial real estate and feeble consumer confidence, the latest batch of economic statistics has been almost uniformly upbeat, signaling that the "on again, off again" recovery is on again. For notwithstanding the rear guard efforts of the more pessimistic pundits to explain away the firmer economic numbers, the economy is rapidly approaching an inflection point—shifting from the subdued growth of the past three quarters to a more vigorous clip so far this year. And while this holds out the promise of better times for profits-pinched industries and jobless workers, it also has a potentially darker side. It raises the specter of a resumption of inflation pressures and a sustained backup of interest rates. Fortunately, these worries are exaggerated.

With some delay, the repeated easings of monetary policy are starting to bear fruit, encompassing an ever-wider number of sectors. Even the consumer seems to be awakening from his prolonged slumber. Although consumer confidence continues to hover near 17-year lows (Financial Digest—March 9, 1992), a good chunk of the population is apparently saying one thing and doing another. According to the Commerce Department, retail sales posted a solid 1.3 percent advance in February, month-over-month, which, coming on top of a 2.1 percent monthly gain in January, belies the conventional wisdom that households are either too debt-burdened or too glum to step up spending in a meaningful way. So, too, residential builders and manufacturers are shaking off the blahs. Reflecting gains in all regions of the country, housing starts in February vaulted to their highest level in just about two years. Now running at a 1.3 million unit pace, housing starts stand 55 percent above their January 1991 low.

With inventories generally lean across the board, the quickening pace of consumer spending and residential building is rapidly spilling into manufacturing activity. The February survey of the National Association of Purchasing Management indicated that the industrial sector as a whole was expanding once again and, as if on cue, this was soon followed by reports that industrial production rose 0.6 percent in February—the first monthly increase in five months—and that the nationwide industry operating rate rose to 78.2 percent of capacity last month, also the first increase in five months. Perhaps most important for the recovery's prospects was the fact that payroll employment is turning higher, chalking up its biggest monthly gain in February since the spring of 1990.



Sources: Federal Reserve Board; Chemical

Wilting Inflation Pressures

Although it was widely anticipated that the economy would rebound this year, the speed with which it appears to be doing so has rekindled inflation and monetary policy concerns, especially in the bond markets which are already wrestling with a wave of corporate debt refinancings and a river of new Treasury offerings. While credit demands are likely to remain large, inflation and monetary policy worries are premature. At this juncture, there are few visible signs of price pressures, nor should there be: The lid is being kept on wages by cost-conscious corporate America, energy costs are being capped by mild weather and conservation-minded consumers, and industrial commodity prices are softening in line with the slowdown in global economic growth.

Consumer prices, for example, rose by less than three percent during the year ending in February, their slowest rate of rise in five years. Even when the volatile swings of food and energy prices are excluded, progress is unmistakable. "Core" consumer inflation is retreating toward the 3½ percent neighborhood, down from better than 5½ percent a year ago. Producer price pressures have not only receded, they've disap-

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peared entirely. During the year ending last month, these prices barely budged, rising just 0.3 percent for finished producer goods, and actually falling at the intermediate and crude goods levels. And, the Employment Cost Index, which is considered to be the best gauge of price pressures economy-wide, is also signaling a friendly inflation environment. During the fourth quarter, wages and salaries rose at their slowest clip since the last quarter of 1987 while benefit costs advanced at their most subdued pace since the third quarter of the same year. Putting the two together, overall compensation costs rose by only 2½ percent in the fourth quarter of 1991—the best performance, from an inflation perspective, since early 1986.

Less Ease, But No Squeeze

Monetary policy concerns may have somewhat more validity—but they should not be overstated. The principal fear is that the Federal Reserve will scan the brightening business landscape, conclude that it has been too successful in re-energizing the economy, and quickly begin nudging short-term interest rates higher in an effort to keep inflation at bay. And, without question, there has been a substantial degree of monetary ease in recent months—reserves have been generously provided to the banking system, short-term interest rates have tumbled and

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/4/92)	158,566	+ 605	- 47,588
New York City (3/11/92)	27,530	- 616	- 5,276
Commercial Paper (3/11/92)	538,756	+ 5,145	- 29,072

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/4/92)	290,695	+ 1,819	- 30,392
New York City (3/11/92)	50,197	- 565	- 7,413

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/4/92)	1,023,540	+ 9,937	- 36,074
New York City (3/11/92)	162,711	- 2,622	- 15,274

Financial Markets

	Friday 3/20/92	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	4.16%	+ .01	- 1.88
180-Day Bills†	4.37	–0–	- 1.77
Longest Bills†	4.71	- .08	- 1.62
Recent Issues:			
4⅞s 1/31/94	5.81	- .02	
6¼s 1/31/97	7.10	–0–	
7½s 11/15/01	7.62	- .04	
8s 11/15/21	8.04	- .01	
Municipals:			
Bond Buyer—20 Bond Index* (3/19/92)	6.79%	+ .03	- .34
Blue List Total ($ Million)	$1,882	- $ 62	+$ 189
30-Day Visible Supply ($ Million)	$4,974	- $1,310	+$1,071
Total	$6,856	- $1,372	+$1,260
Corporates:			
Moody's Aa Composite (3/19/92)	8.75%	- .01	- .48
30-Day Visible Supply ($ Million)	$ 690	+ $ 290	+$ 490
Stocks:			
Dow-Jones Averages:			
Industrials	3,276.39	+ 40.48	+417.48
Transportation	1,433.67	+ 32.89	+361.03
Utilities	206.12	+ 2.82	- 7.73
65 Stocks	1,182.95	+ 18.56	+171.31
N.Y.S.E. Composite Index	226.96	+ 2.66	+ 25.83
N.Y.S.E. Avg. Daily Vol. for Week (000's)	185,597	+ 6,858	+ 6,009

*34% Taxable equivalent 10.29%

† Bond equivalent

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/20/92	Week Ago
Overnight	4.06%	4.00%
1 month	4.38	4.38
3 month	4.38	4.44
6 month	4.56	4.69
1 year	5.13	5.19

FOREIGN EXCHANGE SPOT RATES New York Opening (3/20/92)	Currency Per U.S. $	Week Ago
Belgium	34.46	34.36
Canada	1.1973	1.1959
France	5.6829	5.6589
Germany	1.6741	1.6684
Italy	1259.60	1251.41
Japan	134.04	133.45
Mexico	3060.00	3060.75
Netherlands	1.8846	1.8784
South Korea	771.41	769.50
Switzerland	1.5196	1.5140
Taiwan	25.22	25.07
U.K.*	1.7092	1.7125

*U.S. $ per U.K. pound

CHEM TRADE-WEIGHTED DOLLAR (3/20/92) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.1%	-10.7%

the growth of the transactions-related M1 money supply has spurted (see chart). But while further easing initiatives may not be in the cards, an overt tightening of monetary policy anytime soon is both unlikely, and unwarranted.

For one thing, it still remains to be seen whether or not there will be a meaningful follow-through to the recent spate of firmer economic numbers. Last year, there was not; the economy seemed to be poised at the threshold of quicker growth and the opposite occurred; growth slowed last autumn. For another, the persistent bug-a-boos which almost torpedoed last year's nascent rebound—ranging from lofty debt levels to stricter bank lending standards to state and local government financial woes—have yet to disappear. Finally, long-term interest rates are again climbing. At nearly four full percentage points, the spread between 30-year Treasury bond yields and 3-month Treasury bill rates is far wider than it has been immediately following past recessions, a development which may eventually extract a toll from economic growth. Little relief on this score is in sight, and until the bond vigilantes convince themselves that the odds are against a torrid recovery, their behavior may prevent inflation and monetary tightening—but at the expense of checking the business rebound, too.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/18/92	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	277.131	+ 2.403	+31.165
Loans to Depository Inst.	110	+ .070	- .112
Float	431	- .648	+ .142
Total Reserve Bank Credit	310.216	+ 2.217	+25.056
Treasury Deposits with Federal Reserve Banks	5.906	+ .661	+ 1.105
Currency in Circulation	303.315	+ .554	+16.582
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	271.786	- .394	+21.015
	3/18/92		
Member Bank Reserves:			
Total Reserves Held	56.435	+ 1.458	+ 7.813
Excess (Deficiency)	.395	- .512	- .612
Net Free Reserves	.322	- .525	- .547
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**% Change Since Year Ago**
M1 (3/9/92)	939.2	+ 18.2	+ 11.6
M2 (3/9/92)	3.484.2	+ 4.9	+ 3.5
M3 (3/9/92)	4.202.0	+ 2.9	+ 0.9
Domestic Nonfinancial Debt (3rd Q'91)	11.136.8	+ 5.5	+ 4.7

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 3/20/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	4.05%	4.22%	4.47%
* Federal Agencies	4.25	4.40	4.75
* Municipal Notes–High Grade (34% Taxable Equivalent)	5.00	4.92	5.00
Negotiable Time CDs			
Chemical	Rates By Arrangement		
* Secondary Market–Prime	4.30	4.50	4.95

‡ Finance Company Paper–Prime

5- 14 days	3.66%
15- 29 days	4.20
30- 59 days	4.20
60- 89 days	4.25
90-179 days	4.27
180-239 days	4.35
240-270 days	4.35

‡* Bankers' Acceptances

Apr.	4.20%
May	4.18
Jun.	4.18
Jul.	4.25
Aug.	4.33
Sep.	4.32

‡ Industrial Paper–Prime

30- 89 days	4.25%
90-120 days	4.25

†Federal Funds Effective Rate 3.63%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	4th Q'91	$ 5.747r	$ 5,709	$ 5,558
Gross Domestic Product (1987 Dollars)*	4th Q'91	$ 4.872r	$ 4,863	$ 4,855
Percent Change, Annual Rate	4th Q'91	0.8r	1.8	- 3.9
Change in Consumer Prices*	Feb '92n	3.6%	1.2%	1.2%
Change in CHEM Cost of Living Index*	Feb '92n	7.2%	1.2%	7.2%
Change in Producer Prices*	Feb '92n	2.4%	- 3.6%	- 8.4%
Civilian Employment (Thousands of Persons) †	Feb '92	117,043	117,117	116,937
Unemployment as % of Civilian Labor Force †	Feb '92	7.3%	7.1%	6.5%
Personal Income*	Jan '92	$ 4,928	$ 4,931	$ 4,762
Leading Indicators Composite Index (1967=100) †	Jan '92	146.5	145.2	138.7
Industrial Production Index (1977=100) †	Feb '92n	107.2	106.6r	105.7
Net Change in Consumer Installment Credit †	Jan '92n	- $ 0.18	- $ 0.73	- $ 2.14
U.S. Merchandise Trade Balance †	Jan '92n	- $ 5.77	- $ 6.00r	- $ 7.38
Plant and Equipment Expenditures*	1st Q'92	$ 563.3(a)	$ 532.0(a)	$ 535.5
Private Housing Starts (Thousands of Units)*	Feb '92n	1,304	1,190r	1,008
New Construction Expenditures*	Jan '92	$ 404.1	$ 398.9	$ 406.5
Total Business Inventories †	Jan '92n	$ 813.3	$ 816.7r	$ 830.3
Total Business Sales †	Jan '92n	$ 536.1	$ 533.5r	$ 526.9

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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